FACT SHEET

Medicare Disproportionate Share Hospital

SECTION 9105 OF THE CONSOLIDATED OMNIBUS BUDGET RECONCILIATION ACT OF 1985 (Public Law 99-272) amended Section 1886(d)(5) of the Social Security Act (the Act) to add new subparagraph (F), known as the Medicare Disproportionate Share Hospital (DSH) adjustment provision, which became effective for discharges occurring on or after May 1, 1986.

Methods to Qualify for Medicare Disproportionate Share Hospital Adjustment

A hospital can qualify for the Medicare DSH adjustment by using one of the following two methods:

- **Primary Method**

  The primary method for qualifying for the Medicare DSH adjustment pertains to hospitals that serve a significantly disproportionate number of low-income patients and is based on the disproportionate patient percentage (DPP), which is equal to the sum of the percentage of Medicare inpatient days (including Medicare Advantage inpatient days) attributable to patients entitled to both Medicare Part A and Supplemental Security Income (SSI) and the percentage of total patient days attributable to patients eligible for Medicaid but not eligible for Medicare Part A. If a hospital's DPP equals or exceeds a specified threshold amount, the hospital qualifies for the Medicare DSH adjustment. The Medicare DSH adjustment

is determined by using a complex formula (the applicable formula is also based on a hospital's particular DPP).

- **Alternate Special Exemption Method**

  The alternate special exemption method for qualifying for the Medicare DSH adjustment applies to hospitals that are located in an urban area, have 100 or more beds, and can demonstrate that more than 30 percent of their total net inpatient care revenues come from State and local government sources for indigent care (other than Medicare or Medicaid). These hospitals are also known as

MEDICARE DISPROPORTIONATE PATIENT PERCENTAGE

Disproportionate Patient Percentage

$$\frac{\text{Medicare/SSI Days}}{\text{Total Medicare Days}} + \frac{\text{Medicaid, Non-Medicare Days}}{\text{Total Patient Days}}$$

"Pickle" hospitals as defined under Section 1886(d)(5)(F)(i)(II) of the Act. If a hospital qualifies under this method, the statute provides for a specific Medicare DSH adjustment.

Medicare Prescription Drug, Improvement, and Modernization Act of 2003 and Deficit Reduction Act of 2005 Provisions that Impact Medicare Disproportionate Share Hospitals

Section 402 of the Medicare Prescription Drug, Improvement, and Modernization Act (MMA) of 2003 further amended Section 1886(d)(5)(F) of the Act so that for discharges occurring on or after April 1, 2004, regarding hospitals under the primary qualifying method, the Medicare DSH payment adjustment percentage formulas for large, urban hospitals apply to additional types of hospitals (e.g., thereby increasing the DSH payment adjustment percentage for hospitals such as rural hospitals with fewer than 500 beds and urban hospitals with fewer than 100 beds). In addition, Section 402 of the MMA imposed a 12 percent cap on the DSH payment adjustment for certain hospitals (exempted from the cap are hospitals classified as Rural Referral Centers [RRC], urban hospitals with 100 or more beds, and hospitals located in rural areas with 500 or more beds). Per Section 5003 of the Deficit Reduction Act of 2005, as of October 1, 2006, Medicare Dependent Hospitals (MDH) are also exempt from the cap. Under the primary qualifying method, the formulas to establish a hospital's Medicare DSH payment adjustment percentage are based on certain hospital-specific information including its:

- Geographic designation (i.e., urban or rural);
- Number of beds; and
- Status as a RRC or MDH.

Number of Beds in Hospital Determination

Under the ***Code of Federal Regulations (CFR)*** at 42 CFR Section 412.106(a)(1)(i), the number of beds in a hospital is determined, in accordance with 42 CFR Section 412.105(b) by dividing the number of available bed days during the cost reporting period by the number of days in the cost reporting period.

In addition, for purposes of Medicare DSH, the number of patient days in a hospital includes only those days attributable to units or wards of the hospital furnishing acute care services generally payable under the Inpatient

Prospective Payment System (IPPS) and excludes patient days associated with:

- Beds in excluded distinct part hospital units;
- Beds counted as outpatient observation, skilled nursing swing bed, or ancillary labor/ delivery services;
- Beds in units or wards that are not occupied to furnish a level of care under the acute care hospital IPPS at any time during the three preceding months; and
- Beds in units or wards that are otherwise occupied that could not be made available for inpatient occupancy within 24 hours for 30 consecutive days.

Medicare Disproportionate Share Hospital Payment Adjustment Formulas

Under Section 1886(d)(5)(F) of the Act, additional Medicare DSH payments are made under the IPPS to acute hospitals that serve a large number of low-income patients or to hospitals that qualify as "Pickle" hospitals. The disproportionate share adjustment percentage for a "Pickle" hospital is equal to 35 percent. The adjustment formulas under the primary qualifying method are not applicable to "Pickle" hospitals. Under the primary qualifying method, a PPS hospital is eligible to receive Medicare DSH payments when its DPP meets or exceeds 15 percent. The chart on page 3 depicts Medicare DSH payment adjustment formulas for hospitals qualifying under the primary method.

MEDICARE DISPROPORTIONATE SHARE HOSPITAL PAYMENT ADJUSTMENT FORMULAS—PRIMARY QUALIFYING METHOD

Status/Location Number of Beds	Threshold	Adjustment Formula
URBAN HOSPITALS 0 - 99 Beds	≥15%, ≤20.2%	2.5% + [.65 x (DPP – 15%)] **Not to Exceed 12%**
	≥20.2%	5.88% + [.825 x (DPP – 20.2%)] **Not to Exceed 12%**
100 or more Beds	≥15%, ≤20.2%	2.5% + [.65 x (DPP – 15%)] **No Cap**
	≥20.2%	5.88% + [.825 x (DPP – 20.2%)] **No Cap**
RURAL REFERRAL CENTERS	≥15%, ≤20.2%	2.5% + [.65 x (DPP – 15%)] **No Cap**
	≥20.2%	5.88% + [.825 x (DPP – 20.2%)] **No Cap**
MEDICARE-DEPENDENT HOSPITALS	≥15%, ≤20.2%	2.5% + [.65 x (DPP – 15%)] **No Cap**
	≥20.2%	5.88% + [.825 x (DPP – 20.2%)] **No Cap**
OTHER RURAL HOSPITALS 0 - 499 Beds	≥15%, ≤20.2%	2.5% + [.65 x (DPP – 15%)] **Not to Exceed 12%**
	≥20.2%	5.88% + [.825 x (DPP – 20.2%)] **Not to Exceed 12%**
500 or more Beds	≥15%, ≤20.2 %	2.5% + [.65 x (DPP – 15%)] **No Cap**
	≥20.2%	5.88% + [.825 x (DPP – 20.2%)] **No Cap**

Below is an example of a Medicare DPP calculation and the corresponding payment adjustment calculation under the primary qualifying method:

Hospital A has 62 beds and is located in an urban area. In fiscal year 2003, it had 5,000 total patient days, 1,000 Medicaid/non-Medicare days, 2,000 Medicare Part A days, and 300 Medicare Part A/SSI days. Hospital A's Medicare DPP is 35 percent.

MEDICARE DISPROPORTIONATE PATIENT PERCENTAGE

Disproportionate Patient Percentage	**300 Medicare/SSI Days** / **2,000 Total Medicare Days**	+	**1,000 Medicaid, Non-Medicare Days** / **5,000 Total Patient Days**	=	.35

Because Hospital A is located in an urban area, has less than 100 beds, and has a DPP of more than 20.2 percent, the formula for determining the Medicare DSH adjustment is:

5.88% + [.825 x (DPP – 20.2%)]

5.88% + [.825 x (35% – 20.2%)]

5.88% + 12.21% = 18.09%

Urban hospitals with less than 100 beds are subject to a maximum DSH adjustment of 12 percent. Hospital A's Medicare DSH adjustment is 12 percent.

To find additional information about Medicare DSHs, see Chapter 3 of the **Medicare Claims Processing Manual** (Pub. 100-4) at http://www.cms.hhs.gov/Manuals on the Centers for Medicare & Medicaid Services website. Additional information about the number of beds in a hospital can be found in the CFR at http://www.gpoaccess.gov/cfr/index.html on the Web.

HELPFUL WEBSITES

American Hospital Association Section for Small or Rural Hospitals
http://www.aha.org/aha/key_issues/rural/index.html

Critical Access Hospital Center
http://www.cms.hhs.gov/center/cah.asp

Federally Qualified Health Centers Center
http://www.cms.hhs.gov/center/fqhc.asp

Health Resources and Services Administration
http://www.hrsa.gov

Hospital Center
http://www.cms.hhs.gov/center/hospital.asp

HPSA/PSA (Physician Bonuses)
http://www.cms.hhs.gov/hpsapsaphysicianbonuses/01_overview.asp

Medicare Learning Network
http://www.cms.hhs.gov/MLNGenInfo

National Association of Community Health Centers
http://www.nachc.org

National Association of Rural Health Clinics
http://www.narhc.org

National Rural Health Association
http://www.nrharural.org

Rural Health Center
http://www.cms.hhs.gov/center/rural.asp

Rural Assistance Center
http://www.raconline.org

Telehealth
http://www.cms.hhs.gov/Telehealth

U.S. Census Bureau
http://www.Census.gov

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